

**Supplemental Reporting Document  
Table of Contents  
February 2006 Investment Committee Meeting  
(December 2005 Reporting Period)**

**Quarterly Reports**

- Internally Managed Domestic Fixed Income
- Internally Managed Short-Term Fund
- Internally Managed Short Duration Fund
- Internally Managed High Quality LIBOR Fund



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February 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Domestic Fixed Income  
(Quarter Ended December 31, 2005)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed domestic fixed income portfolio to approved policy guidelines for the quarter ended December 31, 2005.

The Investment Committee approved the "Statement of Internally Managed Dollar Denominated Fixed Income Policy, Guidelines and Procedures" at its May 13, 1996 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Lehman Long Liability Index (LLL). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 20\%$  of the Lehman Long Liability on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in

the benchmark index, the Lehman Long Liability. The table lists the permissible range for weightings in each sector, and sector weightings of the Lehman Long Liability and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the internally managed domestic fixed income portfolio as of December 31, 2005 was \$42.0 billion. This agenda item provides a review of portfolio compliance to its guidelines.

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Chung-Hsin Wang  
Investment Officer

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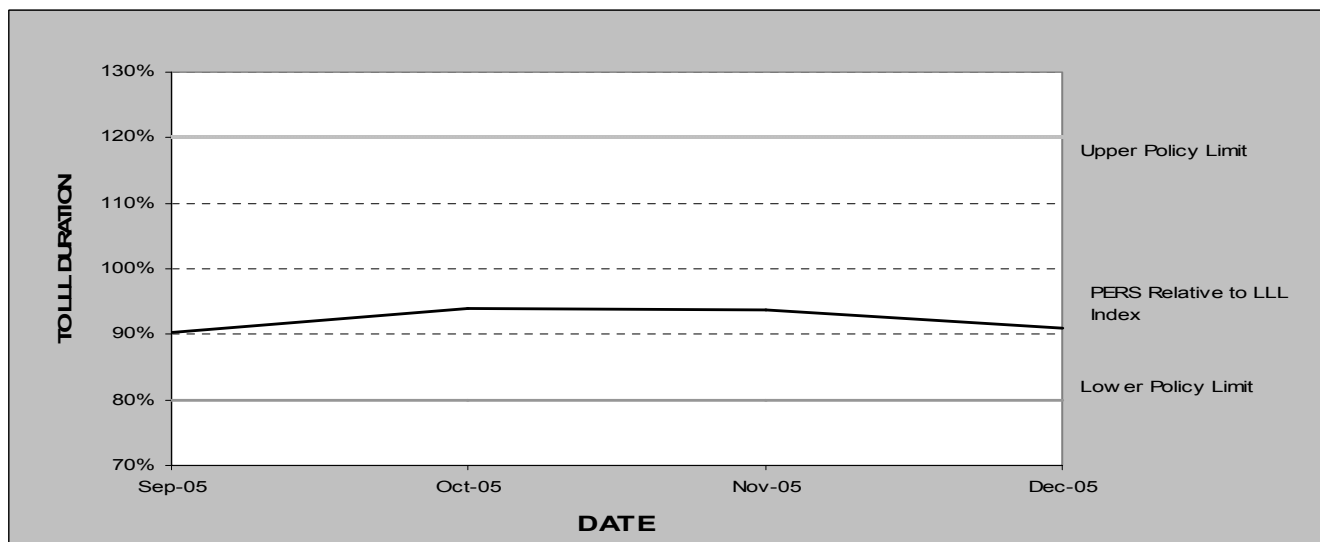
Curtis D. Ishii  
Senior Investment Officer

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Anne Stausboll  
Interim Chief Investment Officer

# QUARTERLY REVIEW OF THE DOMESTIC FIXED INCOME PORTFOLIO ENDING December 31, 2005

## I. Interest Rate Risk



## II. Sector Risk

SECTOR	PERMISSIBLE RANGE	LONG LIABILITY	3/31/2005 PERS	6/30/2005 PERS	9/30/2005 PERS	12/31/2005 PERS
Government	0-50	40	36	36	34	33
Mortgages	10-60	30	31	34	34	35
Sovereigns	0-15	3	2	2	2	2
Investment Grade						
Corporates	10-60	24	25	25	25	25
Opportunistic <sup>1</sup>	0-19	3	6	3	5	6

<sup>1</sup> High Yield

## III. Violations to Policy: None



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February 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short-Term Fund  
(Quarter Ended December 31, 2005)
- II. PROGRAM:** Domestic Short-Term
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed short-term fund to approved policy guidelines for the quarter ended December 31, 2005.

The Investment Committee approved the "California Public Employees' Retirement System's Statement Of Internally Managed Dollar Denominated Short-Term Fund Investment Policy, Guidelines and Procedures" (Policy) at its November 18, 1996 meeting. These guidelines require at least quarterly reporting of weighted-average days to maturity, portfolio allocation by asset class and credit quality, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using weighted-average days to maturity.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended December 31, 2005.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the short-term portfolio as of December 31, 2005 was \$5.74 billion. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Anne Stausboll  
Interim Chief Investment Officer

**QUARTER REVIEW OF THE DOMESTIC  
SHORT-TERM FUND ENDING December 31, 2005**

**I. Interest Rate Risk**

The weighted-average days to maturity of the Short-Term Fund was 1.8 days.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u><b>Asset Type</b></u>	<u><b>Policy Limits</b></u>	<u><b>Portfolio Holdings</b></u>
State Street Bank STIF	100%	98.1
U.S. Treasury and Agencies	100	0.0
Repurchase Agreements	20	0.0
Corporate Securities	100	1.4
Asset-Backed Securities	25	0.5
Total Short-Term Fund		<u>100.0%</u>

**Credit Quality**

Securities rated A1/P1 or higher	100%	96.6
Total Split Rated and A2/P2	30	1.4
Total Short-Term Fund		<u>100.0%</u>

**Other Restriction**

Total Floating Rate Exposure	50%	0.0%
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**III. Violations To Policy**

There were no policy violations this quarter:



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February 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short Duration Fund  
(Quarter Ended December 31, 2005)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed Short Duration Fund to approved policy guidelines for the quarter ended December 31, 2005.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Short-Duration Investment Policy" (Policy) at its August 18, 2003 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were violations during the fourth quarter of 2005 due to the problems associated with ramping up a new portfolio (the first purchase means the



portfolio is 100% concentrated in that security). During the ramp-up period, staff has assumed for compliance calculation purposes that the portfolio size is \$1 billion. This portfolio is expected to grow to more than \$5 billion.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the Short Duration Fund portfolio as of December 31, 2005 was \$781 million. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Anne Stausboll  
Interim Chief Investment Officer

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
SHORT DURATION FUND ENDING December 31, 2005**

**I. Interest Rate Risk**

The portfolio duration of the Short Duration Fund was 0.07.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings*</u>
State Street Bank STIF	100%	1.50
AAA Floating Rate ABS	100	44.80
Non AAA Floating Rate ABS	50	8.40
AAA Fixed Rate ABS	20	5.20
Non AAA Fixed Rate ABS	20	0.00
Total CMBS	25	12.60
Bridge Loans	100	0.30
Money Market Securities ( $\geq$ A1/P1)	100	0.00
Money Market Securities ( $<$ A1/P1)	15	5.05
Total Corporate Securities	50	0.00
 <b><u>Credit Quality</u></b>		
Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	64.30
Total Split Rated and A2/P2 (ST) or non-AAA (LT)	50	13.90
 <b><u>Other Restriction</u></b>		
Total Fixed Rate Exposure ( $>$ 35 day maturity)	20%	5.10

\*Based on \$1 Billion portfolio, thus will not add to 100%

**III. Violations To Policy**

The following policy violations occurred this quarter:

Certain individual security holdings violated the maximum percentage policy limits because of the initial funding of this portfolio in November 2003. It's not possible to efficiently start a new portfolio without exceeding individual security limits while the portfolio grows and reaches critical mass. As this portfolio ramps up to its expected portfolio size of \$5 billion, the individual holdings diversification will come into compliance. During the ramp-up period, it has been assumed for compliance calculation purposes that the portfolio size is \$1 billion.

Based on a \$1 billion portfolio there were two minor violations due to market value appreciation of one SLMA positions that equal 2% in par value but equal 2.04% market value basis.

SLMA 1997-4 CTFS (A2/A+/AA+ rated Student Loan ABS) 2.04% holding



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February 14, 2006

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed High Quality LIBOR Fund  
(Quarter Ended December 31, 2005)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed High Quality LIBOR fund to approved policy guidelines for the quarter ended December 31, 2005.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Short-Duration Investment Policy" (Policy) at its August 18, 2003 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended December 31, 2005.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the High Quality LIBOR portfolio as of December 31, 2005 was \$5.2 billion. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Interim Chief Investment Officer

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
HIGH QUALITY LIBOR FUND ENDING December 31, 2005**

**I. Interest Rate Risk**

The portfolio duration of the High Quality LIBOR Fund was 0.07.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
State Street Bank STIF	100%	14.04
AAA Floating Rate ABS	100	82.12
AAA Fixed Rate ABS	20	0.00
AAA CMBS	15	0.00
Money Market Securities ( $\geq$ A1/P1)	100	0.00
Money Market Securities ( $<$ A1/P1)	10	3.84
High Quality Libor Fund		<u>100.0%</u>

**Credit Quality**

Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	96.16
Total Split Rated and A2/P2 money market securities ( $>$ 1 day maturity)	10	3.84
High Quality Libor Fund		<u>100.0%</u>

**Other Restriction**

Total Fixed Rate Exposure ( $>$ 35 day maturity)	20%	0.00%
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**III. Violations To Policy**

There were no policy violations this quarter.